

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 ISO-00 AF-10 ARA-16 EA-11 EUR-25 NEA-10 RSC-01

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EB-11 FEA-02 FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00

NSC-07 OMB-01 PM-07 SAM-01 SCI-06 SP-03 SS-20 STR-08

IO-14 PA-04 USIA-15 PRS-01 /234 R

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DRAFTED BY TREAS:IMA:FLWIDMAN:DS

APPROVED BY EB:JKATZ

TREAS:OS:JFBENNETT (DRAFT)

EUR/RPE:JTARRANT

EB/IFD/OMA:JKRIZAY

T:RWRIGHT

EB/FSE:SBOSWORTH

S/S:DWMILLER

----- 070824

R 252349Z APR 74

FM SECSTATE WASHDC

TO AMEMBASSY BONN

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY BRUSSELS

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E.O. 11652:N/A

SUBJECT: US COMMENTS ON FRG PAPER ON POSSIBLE NEW  
INTERNATIONAL INSTITUTIONS TO FACILITATE LONG-TERM  
INVESTMENT BY OIL-PRODUCING STATES.

1. PLEASE FORWARD TO MINISTRY OF FOREIGN AFFAIRS AND MINISTRY  
OF FINANCE THE FOLLOWING COMMENTS (PER PARA 17 C  
OF STATE 70073) ON DRAFT PAPER SUBMITTED BY GERMAN  
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DELEGATION TO ENERGY COORDINATING GROUP MEETING MARCH 13-14.

2. DOCUMENT AS SUBMITTED SERVES AS USEFUL CHECK LIST, RAISING MANY OF KEY QUESTIONS WHICH SHOULD BE CONSIDERED IN DECIDING WHETHER IDEA OF NEW INTERNATIONAL INVESTMENT INSTITUTION SHOULD BE RAISED WITH PRODUCER COUNTRIES. GERMANS MAY WISH TO CONSIDER UTILITY OF FLESHING OUT THIS CHECK LIST BY ADDING MAJOR PRO AND CON CONSIDERATIONS WITH RESPECT TO EACH ISSUE.

3. BELIEVE DOCUMENT MIGHT ALSO BE STRENGTHENED BY DISCUSSION OF POSSIBLE OBJECTIVES OF OIL-PRODUCING COUNTRIES. A NEW INTERNATIONAL INVESTMENT AGENCY WOULD BE FEASIBLE ONLY IF BOTH OIL-PRODUCING COUNTRIES AS LENDERS AND OIL-CONSUMING COUNTRIES AS BORROWERS WERE CONVINCED THAT IT OFFERED USEFUL SUPPLEMENT TO PRIVATE FINANCIAL MARKETS (WHICH WOULD NO DOUBT CONTINUE TO BE PRIMARY CHANNEL THROUGH WHICH FUNDS ARE INVESTED). IN ABSENCE OF CONSULTATIONS WITH OIL PRODUCERS, DOCUMENT CAN ONLY SPECULATE AS TO THEIR REACTIONS, BUT THERE COULD BE DISCUSSION OF FEATURES WHICH MIGHT BE NEEDED TO OBTAIN SUPPORT AND PARTICIPATION OF OIL-PRODUCING STATES. IT IS POSSIBLE THAT SUCH AN AGENCY MIGHT APPEAL TO OIL PRODUCERS ON GROUNDS THAT IT MIGHT MINIMIZE THE RISK THAT THEIR INVESTMENTS MIGHT BE EXPROPRIATED OR SUBJECTED TO RESTRICTIONS BY GOVERNMENTS OF HOST COUNTRIES. IN ADDITION TO PROVIDING HIGHER DEGREE OF SECURITY AND POLITICAL SAFETY, INSTITUTION WOULD REDUCE ECONOMIC RISK OF INVESTMENTS AND FACILITATE DIVERSIFICATION. HIGH QUALITY INVESTMENT EXPERTISE COULD BE OBTAINED. IF PRODUCING STATES ATTACHED SUFFICIENT IMPORTANCE TO THESE CONSIDERATIONS THEY MIGHT BE PREPARED TO ACCEPT AN EFFECTIVE YIELD FOR THEIR FUNDS WHICH WOULD ENABLE THE MULTILATERAL AGENCY TO MEET THE COSTS OF ITS OPERATIONS AND STILL OFFER CAPITAL ON TERMS WHICH BORROWERS WOULD FIND ATTRACTIVE.

4. PARA 7 (A) REFERS TO POSSIBLE DENOMINATION OF BORROWED FUNDS IN TERMS OF SDR AS MEANS OF LESSENING EXCHANGE RATE RISK FOR INVESTING COUNTRIES. IT MAY BE IMPORTANT TO DISTINGUISH BETWEEN EXPRESSING REPAYMENT LIMITED OFFICIAL USE

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OBLIGATIONS IN TERMS OF SPECIAL DRAWING RIGHTS AND EXPRESSING OBLIGATIONS IN TERMS OF A "COCKTAIL" OF NATIONAL CURRENCIES. WHILE DECISIONS ON SDR VALUATION FOR LONGER TERM NOT YET MADE, PROPOSED INTERIM VALUATION METHOD USING AVERAGE VALUE OF BASKET OF CURRENCIES DOES NOT FULLY PROTECT LENDER AGAINST EXCHANGE RATE RISK. NATIONAL CURRENCY COCKTAILS, ON OTHER HAND, MIGHT OFFER LENDER CHOICE OF CURRENCIES FOR REPAYMENT, THEREBY

PROVIDING PROTECTION FOR LENDER.

5. DOCUMENT SHOULD ALSO MAKE CLEAR THAT AN INSTITUTION OF THIS CHARACTER COULD NOT BE LOOKED UPON AS A SIGNIFICANT CONTRIBUTION TO PROBLEMS FACED BY DEVELOPING COUNTRIES. BULK OF THE INVESTMENTS MADE BY SUCH AN INSTITUTION WOULD PROBABLY HAVE TO BE IN INDUSTRIAL AREAS SINCE AGENCY WOULD BE EXTENDING CREDITS ON COMMERCIAL TERMS. VOLUME OF FUNDS WHICH SUCH AN INSTITUTION COULD HANDLE IS ALSO RELEVANT TO CONTRIBUTION IT MIGHT MAKE TO STABILIZATION OF CAPITAL MOVEMENTS. PSYCHOLOGICAL SIGNIFICANCE OF ESTABLISHMENT OF INSTITUTION MAY DESERVE MORE EMPHASIS.

6. DESCRIPTION OF ALTERNATIVES WITH RESPECT TO NATURE OF INVESTMENTS WHICH AGENCY MIGHT MAKE MIGHT BE KEPT QUITE GENERAL AT THIS STAGE, ALTHOUGH COVERING CREDITS TO GOVERNMENTS ON COMMERCIAL TERMS, PRIVATE AND PUBLIC DEBT INSTRUMENTS, AND POSSIBLY EQUITY AND REAL ESTATE ASSETS.

7. A FURTHER ISSUE WHICH MIGHT BE DEALT WITH -- CRITICAL IN TERMS OF ACCEPTABILITY OF SUCH AN AGENCY TO BOTH OIL-PRODUCING AND OIL-CONSUMING STATES -- IS THAT OF CONTROL. WHILE FORMATION OF A PRIVATE ENTITY SHOULD NOT BE RULED OUT, WE PRESUME THAT WHAT IS BASICALLY UNDER DISCUSSION IS A GOVERNMENTAL OR QUASI-GOVERNMENTAL AGENCY REPRESENTING GOVERNMENTS OF BOTH PRODUCING STATES AND CONSUMING STATES. QUESTIONS ARISE AS TO (A) WHETHER MEMBERSHIP SHOULD BE LIMITED OR OPEN TO ALL,(B) HOW SHARES WOULD BE ALLOCATED,(C) WHAT OBLIGATIONS OR COMMITMENTS SHOULD BE REQUIRED AS CONDITION OF MEMBERSHIP AND (D) HOW CONTROL OF INSTITUTION SHOULD BE BALANCED AS BETWEEN BORROWERS AND LENDERS.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PAPERS, PETROLEUM, MEETINGS, FOREIGN INVESTMENTS, FINANCIAL MARKETS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 25 APR 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
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**Enclosure:** n/a  
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**Errors:** N/A  
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**Original Handling Restrictions:** n/a  
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**Previous Handling Restrictions:** n/a  
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**Review Authority:** golinofr  
**Review Comment:** n/a  
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**Review Date:** 01 APR 2002  
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**To:** BONN  
**Type:** TE  
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